MINISTRY OF TRANSPORT

Shipbuilding Advisory Committee

Report of the Sub-Committee on Prospects

LONDON
HER MAJESTY'S STATIONERY OFFICE
1960

FOREWORD BY THE MINISTER OF TRANSPORT

I PUBLISH HEREWITH the Report of the Sub-Committee of the Shipbuilding Advisory Committee which was established on 5th May, 1960 to review the prospects of and the problems facing the shipbuilding and ship-repairing industry, and to make recommendations. The Report has been submitted to the Shipbuilding Advisory Committee who have taken note of its findings and its recommendations, and have forwarded the Report to me for consideration by Her Majesty's Government.

It will be seen from the Appendix to the Report that the membership of the Sub-Committee was predominantly representative of the employers and trade unions connected with the shipbuilding and ship-repairing industry. With the agreement of both sides of the industry, I appointed as its Chairman the Permanent Secretary of the Ministry. The Permanent Secretary took the chair and other officials were associated with the Committee in order to facilitate the formulation of findings and recommendations by the two sides of the industry working together. There are a number of recommendations in the Report which I hope will be followed up forthwith by the industry. The others will be given urgent consideration by the Government.

(*Sgd.*) ERNEST MARPLES

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SHIPBUILDING ADVISORY COMMITTEE
SUB-COMMITTEE ON PROSPECTS
REPORT

I. INTRODUCTION

We were appointed to review the prospects of, and the problems facing, the shipbuilding and ship-repairing industry and to make recommendations. Our membership is set out in the appendix.

2. We have held 10 meetings, at one of which we had the benefit of the views of representatives of the General Council of British Shipping on the Shipbuilding Advisory Committee (Mr. R. S. MacTier and Sir Robert Ropner) on future requirements of merchant ships and the competitive position of the United Kingdom shipbuilding industry. We have also seen and discussed with representatives of the Department of Scientific and Industrial Research their Report on the Research and Development Requirements of the Shipbuilding and Marine Engineering Industries.

3. We have not considered the marine engineering industry, whose fortunes are closely tied to shipbuilding.

II. IMPORTANCE OF THE INDUSTRY

4. The shipbuilding and allied industries are of vital importance to the national well-being and economy. According to estimates based on the preliminary results of the Census of Production, the shipbuilding and ship-repairing industry's turnover in 1958 (excluding the Royal Dockyards) amounted to about £370 million. (This figure includes some duplication which arises through intermediate transfers of goods and services within the industry.) The turnover of the separate marine engineering firms in 1958 was some £82 million but most of their output is sold to the shipbuilding industry and is, therefore, included in the £370 million mentioned above. The net output[1] of the shipbuilding, ship-repairing and marine engineering industries as a whole was about £200 million and was almost three per cent of the net output of manufacturing industry as a whole. These figures include work done for the Royal Navy by commercial yards. Indications are that the picture for 1959 and 1960 is substantially similar.

5. The industry is of particular importance in certain areas of the country, in some of which there is a relatively high level of general unemployment. A contraction of work in the shipyards and related industries would, therefore, be serious for these areas. Some 70 firms are engaged in shipbuilding

(1) Net output is the value of goods and services produced less the value of materials (including bought-in components) and fuel used.

which, together with the many firms constructing smaller craft, at the end of 1960 employed nearly 85,000 operatives, of whom some 12,500 were engaged on naval new construction. Ship-repairing employed about 50,000 of whom only about 750 were on naval work. These figures, which are taken from Ministry of Labour returns, relate only to operatives employed in the shipbuilding and ship-repairing industry and take no account of the large number of men employed in marine engineering and in ancillary supplying industries throughout the country.

6. Merchant ships built in this country for export are, of course, earners of foreign exchange. But so are ships built for United Kingdom owners which not only earn but also save foreign exchange throughout their effective life. Both categories, therefore, represent a valuable contribution to the nation's balance of payments.

III. THE POSITION IN THE WORLD OF UNITED KINGDOM SHIPBUILDING

7. The output of the United Kingdom shipbuilding industry is no longer the biggest in the world in terms of tonnage, although it still is in terms of value. The striking feature of the fifties has been the growth in world shipbuilding capacity. In 1950 the world launched 3·5 million gross register tons (m.g.r.t.) of merchant ships, which (apart from the years immediately after the first world war) was then the highest peacetime production ever achieved. In 1960 output was 8·3 m.g.r.t. but United Kingdom output remained almost static between 1950 and 1960 at about 1·4 m.g.r.t. per annum so that this country's share of world production fell from 37% to 16% though the value of United Kingdom output, which includes for example a relatively high proportion of passenger ships, has remained the greatest in the world. Output has risen in every other shipbuilding country, but most markedly in Japan and Western Germany. The tonnage of ships on order including that under construction in United Kingdom shipyards is nevertheless at present the largest in the world. Account must also be taken of the large amount of work United Kingdom yards do for the Royal Navy. The Navy Estimates for 1961/62 make provision for some £44 million to be spent outside the Royal Dockyards on new construction.

IV. SITUATION FACING SHIPBUILDING THROUGHOUT THE WORLD

8. Freight rates fell sharply in 1957 and have since only partially responded to the expansion of world trade. This has caused a sharp falling-off throughout the world of orders for new ships. It may be a few years before shipping fully recovers; recovery is likely to come earlier for dry cargo ships than for tankers. Competition for such orders as there are is already fierce and, even when shipping recovers, there is likely to be an excess of shipbuilding capacity as there is now enough to replace the world's merchant fleets every 10 to 12 years, whereas the life of a merchant ship is normally

at least twice as long. The situation may be aggravated if more yards continue to be built, for reasons of national prestige, in countries which have hitherto ordered their ships elsewhere.

V. RESTRICTION ON FOREIGN MARKETS

9. Since the war, the aspirations of many countries to develop national merchant fleets has led to the establishment of their own shipbuilding facilities. Some of these countries, which have long been regular customers of United Kingdom shipbuilders, have gone ahead with plans to lay down completely new shipyards, or to expand existing small facilities. These trends have in some cases been linked with restrictions against shipowners in these countries ordering tonnage elsewhere, the increased cost of building in national shipyards being borne as a charge on public funds.

10. Other countries with established shipbuilding interests have also in recent years greatly expanded the capacity of their shipyards, which was small before the war, to an extent far beyond what is required to maintain their own fleets. They have now themselves become substantial exporters of ships in many cases under bilateral trade agreements between Governments.

11. Apart from the difficulties due to the non-availability of long-term credits referred to in later paragraphs, United Kingdom shipbuilders have been frustrated in the export market to some countries as a result of such measures as reparations and barter agreements, debt repayments, restrictions of import licences coupled with subsidies for national yards, and special taxation and depreciation concessions designed to persuade owners to build in their own countries.

12. The effect of these practices and developments has been to impose widespread restrictions in markets abroad which were traditional outlets for United Kingdom shipbuilders.

VI. CAPACITY OF THE UNITED KINGDOM SHIPBUILDING INDUSTRY

13. It is not possible to assess precisely the annual output in terms of gross tonnage which the shipbuilding industry in the United Kingdom could achieve, both because of the great variety of types of merchant ships built and the difficulty of estimating accurately what the capacity at present used for naval construction could produce in terms of merchant tonnage. Output in recent years has been about 1·4 m.g.r.t. annually, and although recent and current shipyard modernisation schemes aim at more efficient and economical methods of production, rather than large-scale expansion, they must nevertheless increase the industry's capacity. The most realistic estimate the industry can suggest of the industry's potential annual output, assuming a skilled force similar to that available in recent years, is some 1·6 m.g.r.t., apart from naval new construction.

VII. PROSPECTS OF SHIPBUILDING IN THE UNITED KINGDOM

Immediate Prospects

14. The tonnage of merchant ships of 100 gross tons and over on order in United Kingdom yards has fallen from 5·4 m.g.r.t. at the end of 1958 to 3·2 m.g.r.t. at the end of 1960, of which some half is already under construction. The orders are unevenly spread. A number of yards which build small and medium-sized ships are already feeling the pinch and will soon have no work at all unless new orders can be secured, and even the yards which build big ships are beginning to be affected.

15. We understand that employment on naval new construction is not likely to change significantly in the next few years, unless Government policy changes. Total employment of operatives on shipbuilding could however fall considerably by the end of this year unless a substantial volume of new orders is received, and we see little grounds for hope that these will be forthcoming. The impact on particular areas is difficult to forecast as it depends to some extent on where new orders will be placed. It appears likely, however, that the fall in shipbuilding employment may be most severe in Scotland and Northern Ireland. The yards building smaller ships are scattered throughout the country. They provide important employment in their districts and their difficulties will undoubtedly cause local hardship.

Longer-term prospects

16. Any longer-term forecast can only be extremely tentative. In the long run, we expect that requirements for United Kingdom shipowners may amount on the average to roughly 1·0 m.g.r.t. a year. If the shipbuilding industry is fully competitive it should obtain most of this work. To this must be added its share of foreign orders, the volume of which it is difficult to estimate.

17. But prospects up to the end of 1965 are less favourable, and in the following paragraphs we indicate what they may be.

18. By far the major element in demand will be ships for United Kingdom registry. The most significant fact about the size of the United Kingdom non-tanker fleet is its stability over recent years. We see little reason to doubt that this will hold good over the next few years. On the basis of the replacements required to keep the United Kingdom fleet at its present level, we estimate that requirements for new non-tanker tonnage in the years 1961 to 1965 inclusive may be some 3 m.g.r.t. of which some $2\frac{1}{2}$ m.g.r.t. might be built in United Kingdom yards. The demand for tankers is subject to a number of particularly uncertain factors, and the problem is dominated by the substantial surplus of tonnage which now overhangs the market and which seems likely to persist to a greater or smaller degree throughout the period. On the basis of the tonnage already on order, with an allowance for additional orders, we estimate that United Kingdom shipyards may build some $1\frac{1}{2}$ m.g.r.t. of tankers for United Kingdom registry in the years 1961 to 1965 inclusive. The total tonnage to be built for United Kingdom registry in United Kingdom yards is therefore estimated at some 4 m.g.r.t.

19. The remaining work will be for Commonwealth and foreign registry. Existing orders for these registries amount to some $\frac{1}{2}$ m.g.r.t. of which some are indefinite. Perhaps some $\frac{3}{4}$ m.g.r.t. in all may be built by the end of 1965.

20. To sum up, we estimate that some $4\frac{3}{4}$ m.g.r.t. may be built in United Kingdom yards in the years 1961 to 1965 inclusive. Forecasts of delivery dates indicate that some $1\frac{1}{4}$ m.g.r.t. may be completed in 1961.

21. We have made no allowance in this estimate for the effects of any possible emergencies on shipbuilding demand. Apart from any such special developments, there are many ways in which these estimates of demand for new tonnage could be falsified. This is particularly so in respect of tankers. Although it is not likely that the surplus of tanker tonnage will have disappeared by 1965, owners looking beyond that time may well feel it prudent to order tonnage in anticipation of a changing market. But to what extent this would apply to United Kingdom owners, especially independents, must be uncertain and in any case it would not make much difference to actual deliveries by 1965.

22. With such prospects the industry is clearly faced with a testing period which will be a challenge to management and men if the industry is to weather the storm and be prepared to take full advantage of the possibilities when demand recovers.

VIII. COMPETITIVE POSITION OF UNITED KINGDOM SHIPBUILDING

23. The most important factor will be the industry's competitive ability and we proceed to analyse how this stands at present and how improvements might be effected. In doing so we naturally dwell on those aspects in which we believe improvements in the industry are possible. We do not wish, however, to convey the impression that it is generally inefficient and outmoded in its ways. Some yards are as efficient as any in the world. But there is room for progress, and even marginal improvements would be helpful in the fierce competition which now prevails. Competitors in other countries, faced with the same trials, will also be straining every nerve to maintain or improve their position.

Ability to meet shipowners' requirements

24. We have no doubts about the ability of United Kingdom shipbuilders to build a ship of any type to meet shipowners' requirements, or to suggest new developments to them. The overall quality and design of British-built ships of all types is as good as the best in the world, and in some types, in particular passenger ships, the United Kingdom leads the world.

Research and development on ship design

25. We do not dwell on the industry's research and development work as this has been covered in the report of the Department of Scientific and Industrial Research on the Research and Development Requirements of the

Shipbuilding and Marine Engineering Industries. We welcome the assurance that the industry will co-operate witb the Department of Scientific and Industrial Researcb and the Ministry of Transport in implementing the recommendations of the report.

Prices

26. The latest evidence available suggests that at least some United Kingdom shipbuilders are now offering prices as low as their foreign competitors, tbough we are informed that this is sometimes achieved only by eliminating profits and cutting overhead charges even in those firms whicb are known to be leading the industry in the introduction of cost-cutting techniques. But there is fierce competition for the orders going and there is evidence that some firms in other countries have adopted similar tactics. We think, bowever, tbat the most efficient and up-to-date firms will continue to be able to offer competitive prices for the type of ships in which they specialise.

27. Shipowners naturally like to know exactly what their commitments are and demand fixed prices. They are getting these from all countries in the present buyers' market, and indeed shipbuilders prefer to offer them. But this presents greater difficulties to United Kingdom shipbuilders than to their competitors in other countries, where the effect of cbanges in wage rates is more predictable because of the basis on which they are negotiated.

Cost of Materials and Equipment

28. The price of steel as tbe principal raw material used in shipbuilding significantly affects the cost not only of the hull but also of the propelling machinery and innumerable items of equipment and outfit.

29. For shipbuilding plates and sections there is now little difference between United Kingdom prices and tbose ruling on the Continent.

30. It must be empbasised that a high proportion of the cost of a sbip comprises materials and equipment bought in by the shipbuilder, and over tbese costs be has no direct control. Shipbuilders prefer to buy United Kingdom materials and equipment but items sucb as castings, forgings, deck and auxiliary machinery, derricks, and many others, can frequently be bougbt more cbeaply from Continental manufacturers. Thus shipbuilders are sometimes forced to buy in the cbeapest market consistent with quality and performance, but they are not free to do so when shipowners specify the make and type of equipment required.

31. It is important that the makers of bought-in materials and equipment should offer fixed and competitive prices. They would lose much custom if shipbuilders' orders declined substantially. We think it essential to bring this bome to the supplying industries concerned and welcome the efforts whicb shipbuilders are continuously making, with some success, in this direction.

Labour Costs

32. Information is not available for a full comparison of labour costs in different countries. This would require figures for actual labour costs for similar types of ships built bere and abroad. The only information available is for hourly earnings and "fringe benefits" such as social insurance

paid by the employer which is only one element of total labour costs. A full comparison should take account not only of average earnings etc. hut also of the numher of man-hours of various degrees of skill required to build ships of the same type. Available information indicates that earnings and fringe benefits taken together are about the same per hour in Western Germany as in the United Kingdom. In Japan they are considerably lower than the United Kingdom figure. The information available to us about the figures for Sweden has not enabled us to reach any detailed or agreed conclusion although it would appear on the surface that they are somewhat higher.

Deliveries

33. It is of the greatest importance to a shipowner for his ship to be completed and delivered on the date he requires. Shipbuilders in this and other countries can now generally meet shipowners' requirements in this respect (though only modernised yards can effect really quick deliveries) provided their production programmes are not upset by stoppages of work in the yards. Such stoppages have, unfortunately, occurred more frequently in this country than in some others. The industry's customers have had to bear the consequences of this, as delays due to industrial disputes are specifically excluded from penalty under a huilding contract if delivery is not effected on the date promised. The effect of such delays has undoubtedly been detrimental to the United Kingdom industry.

Credits

34. The availability of credit and the terms on which it is offered very often determine nowadays whether a shipowner will place an order and with whom he places it. In the huyers' market which prevails, and may be expected to prevail for some years, the shiphuilder himself has increasingly to arrange for credit if he is to get the orders he needs.

35. The evidence we have indicates clearly that credit is available for shipbuilding more freely and on hetter terms in other countries than it is here, and that United Kingdom shipbuilders are losing orders because of credit difficulties alone. There is an urgent need for credit to be more freely available in this country for shipowners and for its price to be on a par with that offered abroad. In the view of the industry, credit is as important for orders from United Kingdom owners as from foreign owners. We have noted the recent decision of the Bank of England to refinance a proportion of the medium-term export credits provided by the banks, but it is too early to assess the extent to which this will help.

36. We welcome the improved and cheaper facilities for guaranteeing export credits which the Export Credits Guarantee Department now offers for shiphuilding. We have noted, too, the other measures applying to industry generally whereby E.C.G.D. may in certain circumstances insure credit on longer terms than the normal maximum of five years, or for the first five years of a longer period. These improvements may enable U.K. shipbuilders to secure more foreign orders, although we stress the vital importance of their being ahle to quote competitively at the outset of the negotiations; it is not enough for them to be able to do so only when they know what terms are on offer abroad.

37. We realise that the problem of credit for shipbuilding cannot be treated in isolation and that many other factors such as the balance of payments have to be taken into account. Nevertheless, both sides of the industry are agreed that the requirements of the shipbuilding industry ought to receive specially sympathetic consideration in present circumstances. They believe that, when even the most efficient yards in the country are failing to get orders solely because their competitors can offer more favourable credit terms, there is a strong case for enabling them to meet those terms.

38. We are aware that the Shipbuilding Conference has been pressing for a long time the need for better credit facilities and that the Ministry of Transport have been investigating the subject. We recommend that the Government should give the industry's needs the most sympathetic and urgent consideration.

Modernisation and re-equipment

39. Methods of building ships have been revolutionised since before the war, largely because of the introduction of welding, and it is common practice to adopt the most modern techniques.

40. The United Kingdom shipbuilding industry has invested large sums in modernising and re-equipping its yards. Between 1951 and 1956 gross investment in the shipbuilding, ship-repairing and marine engineering industries (excluding the Royal Dockyards) averaged £8 million per annum, representing between 2 and 3 per cent. of turnover or 4½ per cent. of net output. In 1957 gross investment was estimated at £14 million and in 1958 at £18½ million representing 5 per cent. of turnover or 9½ per cent. of net output in that year. Investment is expected to continue at or above this level until current modernisation plans are completed. The lower rate of investment up to 1956 is largely explained by the fact that, up to 1955, investment was generally under Government control both financially and through steel allocation, and the requirements of shipbuilding did not get so high a priority as those of other industries.

41. This modernisation has had to be undertaken with the least possible interruption to current production, during a period when every effort was being made to maintain full output. It must also be borne in mind that modernisation calls for radical changes in methods of work and in the phasing of work. Under pressure for maximum production these changes could not be made quickly or easily.

42. Shipbuilding facilities in the traditional shipbuilding countries of Europe, except Sweden, were severely damaged if not completely destroyed during the war. In the rehabilitation of their industries these countries were able to develop their shipyards on the most modern lines and in the process increased their capacity. In the earlier post-war years this development was to a large extent financed by American Marshall Aid counterpart funds under the European Recovery Programme.

43. In Western Germany the main shipbuilding facilities were almost entirely dismantled after the war but in 1949 Germany was allowed to build small ships, and in 1951 all restrictions on size were removed. The rehabilitation of the German shipbuilding industry primarily sponsored by the United States was greatly helped by the allocation of E.R.P. funds, by low interest

state loans and income tax concessions which exempted 50 per cent. of business profits from tax provided the funds were used as interest-free loans for shipbuilding.

44. This trend towards expansion still continues and new or greatly extended yards have been built in Holland, West Germany, Sweden, Norway and Denmark, and have been largely financed, in Scandinavian countries, out of tax-free investment reserves.

45. In Japan also, once restrictions were lifted, the renewal of the shipbuilding industry was encouraged by way of an interest subsidy on shipbuilding loans and tax concessions. The huge expansion of Japanese shipbuilding capacity has also been influenced by the placing of orders for very large tankers by Greek-owned American-financed companies and by American shipowners for registration under flags of convenience particularly during the years 1955 to 1957 at a time when shipbuilding capacity in other countries was fully occupied.

46. In contrast, financing of the modernisation of British shipyards has been carried out almost entirely from the industry's own resources.

47. We see no grounds for thinking that the present rate of investment in the United Kingdom shipbuilding industry is unsatisfactory, bearing in mind that it is being mainly directed to improving efficiency rather than expanding capacity, though it does have the latter effect.

48. Most of the yards have now been modernised and re-equipped, some of them to a standard fully equivalent to that of their most efficient foreign competitors. Construction times have greatly improved in consequence.

Research into production methods

49. We welcome the recent setting up by the shipbuilding industry of an organisation to carry out a systematic study of production methods, and the appointment of appropriate staff to the British Shipbuilding Research Association. We urge that studies should not be confined to ship construction methods but should also cover means of improving the efficiency of fitting out ships.

Government-assisted competition in other countries

50. Subsidies are available in France and Italy for shipbuilding for both home and export markets. These are intended to compensate for the higher costs shipbuilders in these countries have to bear and undoubtedly lead to a loss of orders for British shipbuilders both from these countries and from others. We know that they have given rise to protests in other countries and it is possible that the development of the Common Market may lead to some improvement. Construction-differential subsidies are also given in some other countries, notably the U.S.A., for ships for the home market.

51. Differences in the structures of national taxation systems and in the individual bases and methods of levying revenues for national and local purposes render virtually impossible any absolute comparisons, as between the United Kingdom and other countries, of the effect of taxation on shipbuilding and ship-repairing. Generally the national taxation arrangements in other countries, as in the United Kingdom, do not single out shipbuilding

and ship-repairing for specially favourable treatment as compared with otber industries in tbeir respective countries. Taken all in all they do not appear in the long run to be markedly more favourable to shipbuilding than those in the United Kingdom. We believe, however, that the rapid development of the shipbuilding industries in the Scandinavian countries, notably in Sweden, has been stimulated by arrangements whicb, altbougb not confined to shipbuilding, enabled them to build up the necessary funds for modernisations and extensions by the creation of tax-free reserves out of profits.

52. More flexible treatment in certain other countries in regard to allowances for the amortisation of capital expenditures on industrial structures could also have been an important factor in encouraging their shipbuilding and ship-repairing industries to further investment in this form of productive equipment. But sucb arrangements may well be balanced by United Kingdom measures such as investment and initial allowances. From time to time certain countries are understood to bave adopted various taxation measures designed to encourage production for export, including shipbuilding exports: and in Canada the shipbuilding industry is indirectly assisted by provisions whereby shipowners liable to Canadian taxation are granted accelerated writing-off allowances on ships built in that country.

Labour relations

53. We have given particularly careful consideration to labour relations in the industry.

54. We are satisfied that the industry has suffered and is suffering from many disputes; that these cause interference with work programmes; and that they have on occasion made it impossible for a firm to deliver a sbip on the promised date, whicb has undoubtedly created difficulties in getting further orders.

55. We are satisfied that the utilisation of labour in the industry is a matter of major concern, but there is divided opinion between shipbuilding employers and trade unions as to whether or not further flexibility between trades would improve the efficiency of the industry. Difficulties about tbe utilisation of labour arise to a greater or lesser extent in many yards, no matter how good their labour relations are.

56. We understand that foreign yards do not suffer so much from tbese difficulties.

57. Altbough both employers and trade unions criticise each other, we are satisfied that no useful purpose would be served by attempting to apportion responsibility for the present state of affairs. It stems from the history and traditions of the industry whicb die hard and bave their effects even after the original cause bas disappeared. It is sufficient to say that changes in production methods can lead to fear of loss of status or employment in a trade even in good times and militate against workmen's ready co-operation in their adoption.

58. We are agreed that in the present developing crisis of the industry it is not common sense to let things go on as they are. We believe that with good will and determination on both sides substantial improvements can be made. We fear that if they are not made the industry may not be able to compete effectively and that all will suffer.

59. We therefore recommend that all managements should make the most strenuous efforts to improve labour relations and engender understanding and trust among their workmen. In this connection it might be of assistance if employers encouraged their managements at all levels to follow good practice in personnel management.

60. Trade union leaders also have their responsibilities and they should make the most strenuous efforts to improve labour relations. They should continue to take the necessary steps to advise their members of the serious prospects facing the industry and the need for the maximum possible co-operation between management and workpeople to achieve the most efficient methods of production.

61. Neither of these recommendations could be effected with success without the other, and neither side could make any really significant move unless the other also took action. We are sure that we are not unrealistic in making these recommendations. We know that both sides have a deep interest and pride in the industry and we believe that it should be possible for them together to face up to the situation.

62. We recommend that in this spirit employers and trade unions should together review their arrangements for avoiding and settling disputes. The avoidance and settlement of demarcation disputes is of particular importance.

63. We recommend too that the joint yard consultative committees set up during the war, where they have lapsed, should be reinaugurated or revived. All such committees should meet regularly for free consultation about ways and means of improving efficiency and techniques, and for promoting mutual understanding. These committees will require careful handling if they are to be effective. They must not be sidetracked, as some of them have been in the past, into dealing solely with welfare matters or becoming involved in questions of pay and allowances. The last-mentioned subject should be left to be dealt with under the industry's normal negotiating machinery.

64. These committees must be at yard level, as yards vary so much in their method of working. Yard committees will, however, inevitably find themselves faced with questions which require national discussion. We recommend therefore that employers and trade unions should constitute themselves as a national joint consultative committee to deal solely with such matters of this nature as are of national interest. We recommend that it should meet as and when required, and that it should be responsible for keeping alive at all levels the spirit of co-operation.

IX. RATIONALISATION

65. We have given some preliminary consideration to the need for rationalising the industry. Our view at present is that there should be no need for any major reduction in the capacity of the industry if our recommendations are carried out effectively. Most of the present capacity will be required if the industry is sufficiently competitive to attract its proper share of orders when demand recovers, taking into account the fluctuating nature of shipbuilding demand. There will continue to be an important place for the small specialised firms.

66. We do not feel at present that we should positively recommend the amalgamation of firms, though this is a subject which merits continued consideration. It might for example lead to advantages in making greater financial resources available to companies and might facilitate a greater pooling of effort. We understand however that concentration in really big shipbuilding units may not in itself necessarily lead to greater efficiency.

67. We are therefore content for the present to recommend that managements should bear in mind the possible advantages of amalgamations and should, whenever practicable, co-operate to share effort and the use of expensive equipment. We have noted that a number of firms are already in groups within which joint arrangements are made wherever this is considered to be economical and practicable, and we are aware that there is co-operation between some other yards in pooling resources.

X. IMPORTANCE OF THE UNITED KINGDOM SHIPPING INDUSTRY TO THE UNITED KINGDOM SHIPBUILDING INDUSTRY

68. The prosperity of the shipbuilding industry in the United Kingdom is essentially tied to that of the United Kingdom merchant fleet. The industry is therefore keenly interested in any development affecting the merchant fleet and awaits with great interest the Government's reaction to the General Council of British Shipping's recent Survey of British Shipping.

69. We have considered whether we might recommend a scrap and build scheme or a scheme for subsidising the scrapping of ships in the hope that these schemes might lead to an increase in the volume of orders for new ships. We recognise however that the merits of any such schemes must be determined primarily on consideration of their benefit to the United Kingdom shipping industry.

70. We appreciate that any purely national scrap and build scheme is unlikely to be advocated by British shipowners and that the prospects of any international scheme for scrapping older tonnage are remote. But we trust that the Government will consider these, and any other similar possibilities, whilst they are examining the Survey Report of the General Council of British Shipping.

XI. GOVERNMENT ORDERS

71. Orders for the construction of Government-owned ships and in particular ships for the Admiralty, constitute an important element of the industry's work.

72. Both sides of the industry have pressed that the Government should consider increasing the volume of orders for Government ships, in particular ships for the Admiralty, to help to maintain employment at a time when we expect the demand for merchant ships to fall off. We recognise the difficulties that this would involve, e.g. the need for more or at least earlier finance.

Nevertheless, even a small amount of additional work would help some firms to hold their labour force until the demand for merchant ships begins to recover. We therefore recommend that the Government should review its planned requirements for ships with a view to placing as much work as practicable with the industry in the next two or three years.

XII. RECOMMENDATIONS

73. We recommend that:—

(*a*) the Government should give the industry's need for credits the most sympathetic and urgent consideration (paragraph 38);

(*b*) managements and trade union leaders should make the most strenuous efforts to improve their labour relations (paragraphs 59 and 60);

(*c*) trade union leaders should continue to take the necessary steps to advise their members of the serious prospects facing the industry and the need for the maximum possible co-operation between management and workpeople to achieve the most efficient methods of production (paragraph 60);

(*d*) employers and trade unions should together review their arrangements for avoiding and settling disputes (paragraph 62);

(*e*) joint yard consultative committees should be set up for free consultation about ways and means of improving efficiency as well as welfare matters (paragraph 63);

(*f*) employers and trade unions should constitute themselves as a national joint consultative committee to deal with matters of national interest relating to ways and means of improving efficiency. This committee should meet as and when required and should be responsible for keeping alive at all levels the spirit of co-operation (paragraph 64);

(*g*) managements should bear in mind the possible advantages of amalgamations and should, whenever practicable, co-operate to share effort and the use of expensive equipment (paragraph 67);

(*h*) the Government should consider in the course of their examination of the Survey Report of the General Council of British Shipping the possibilities of subsidising the scrapping of ships or a scrap and build scheme (paragraphs 69 and 70);

(*i*) the Government should review its planned requirements for Government-owned ships with a view to placing as many orders as possible in the next two or three years (paragraph 72).

L. J. DUNNETT
Chairman

A. B. BIRNIE
Secretary

10*th March,* 1961

APPENDIX

MEMBERSHIP OF SUB-COMMITTEE

Sir James Dunnett, K.C.B., C.M.G.	Chairman
Colonel T. Eustace Smith, C.B.E., T.D. Mr. A. H. White, C.B.E. Mr. R. B. Shepheard, C.B.E.	Shipbuilding Conference
Mr. R. W. Johnson Mr. G. Harold R. Towers Mr. N. A. Sloan, Q.C.	Shipbuilding Employers' Federation
Mr. E. J. Hill Mr. G. H. Doughty Mr. H. G. Barratt Mr. A. Williams	Confederation of Shipbuilding and Engineering Unions.

with officials from the Ministry of Transport
and the Ministry of Labour.

(2085) Wt. 5253—V385 K.28 4/61 A.O.St.